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Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 ERDA-07

AID-05 CEA-01 CIEP-02 COME-00 EB-07 FPC-01 INT-05

OMB-01 SAM-01 OES-05 STR-04 TRSE-00 FRB-01 FEA-01

USIE-00 INRE-00 NSCE-00 SSO-00 /093 W
---------- 040483
O R 251838Z FEB 75
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 8629
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY LUXEMBOURG
AMEMBASSY OSLO
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY THE HAGUE
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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DEPT PASS TREASURY FEA

E.O. 11652: N/A
TAGS: ENRG, UK
SUBJECT: PETROLEUM REVENUE TAX (PRT)

FOLLOWING IS COPY OF ADVANCED TEXT OF STATEMENT BY PAY-
MASTER GENERAL DELL ON PETROLEUM REVENUE TAX DELIVERED TO
HOUSE OF COMMONS FEBRUARY 25:
"WITH PERMISSION, MR. SPEAKER, I SHOULD LIKE TO MAKE A
STATEMENT ABOUT PETROLEUM REVENUE TAX.
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ON SECOND READING OF THE OIL TAXATION BILL I INDICATED

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THAT ANY RELIEF FOR MARGINAL FIELDS WOULD BE DECIDED IN THE LIGHT OF THE CONSULTATIONS WITH THE OIL COMPANIES LAUNCHED ON 19 NOVEMBER. FOLLOWING THESE CONSULTATIONS THE GOVERNMENT HAS DECIDED THAT SAFEGUARDS FOR THE MARGINAL FIELDS WILL BE OF TWO KINDS. FIRST, THERE WILL BE A DISCRETIONARY PROVISION IN THE PETROLEUM BILL TO REFUND ROYALTIES IN WHOLE OR IN PART. ANY REFUND OF ROYALTIES WILL BE FREE OF PRT AND CORPORATION TAX.

SECONDLY, THERE WILL BE A NON-DISCRETIONARY PROVISION WITHIN THE TAX SYSTEM. IN CONSIDERING WHAT FORM THE PROVISION SHOULD TAKE WE HAVE PAID CAREFUL ATTENTION TO THE VARIOUS SUGGESTIONS PUT FORWARD BY THE SPOKESMEN OF THE COMPANIES THEMSELVES, AND OUR PROPOSALS FOLLOW SOME OF THOSE SUGGESTIONS, THOUGH I DO NOT CLAIM THAT THEY GO AS FAR.

THE NON-DISCRETIONARY PROVISION WILL CONTAIN TWO ELEMENTS. FIRST, UNDEIOTHE PRESENT PRT PROVISIONS OF THE BILL AN UPLIFT OF 50 PERCENT ON CAPITAL EXPENDITURE IS ALLOWED IN LIEU OF INTEREST; WE PROPOSE AN ADDITIONAL 25 PERCENT, MAKING A TOTAL UPLIFT OF 75 PERCENT, ALL OF WHICH CAN BE CLAIMED IN THE FIRST YEAR OF TAX LIABILITY. THIS WILL GIVE THE INDUSTRY A FURTHER ELEMENT OF FRONT-END LOADING, THAT IS REVENUE FREE OF PRT WHICH WILL HELP THEM TO RECOVER CAPITAL EARLY IN THE LIEFE OF THE FIELD.

SECOND, WE PROPOSE AN OIL ALLOWANCE PER FIELD OF 1 MILLION TONS OF OIL A YEAR, WHICH WILL BE FREE OF PRT, SUBJECT TO A CUMULATIVE TOTAL OF 10 MILLION TONS PER FIELD. THAT IS TO SAY, IN EACH CHARGEABLE PERIOD OF 6 MONTHS, AN ALLOWANCE IN MONEY TERMS EQUIVALENT TO HALF A MILLION TONS WILL BE AVAILABLE TO SET AGAINST PRT LIABILITY.

THESE PROVISIONS WILL OF COURSE BENEFIT ALL FIELDS, NOT MERELY MARGINAL FIELDS, IN EXEMPTING A SUBSTANTIAL TRANCHE OF THEIR REVENUE FROM PRT, AND TO THAT EXTENT GIVING THEM A MORE SECURE PROSPECT OF RETURN ON THEIR INVESTMENT. BUT, SINCE THE TONNAGE ALLOWANCE IS THE SAME FOR LARGE FIELDS AND SMALL, IT WILL BE OF PROPORTIONATELY GREATER BENEFIT TO THE LATTER, AND WE HAVE HAD THIS IN MIND IN ADAPTING THE SUGGESTIONS RECEIVED FROM THE INDUSTRY.

I BELIEVE THAT THESE PROVISIONS WILL HELP US TO FIX A

RATE OF PRT WITH GREATER SECURITY THAT IT WILL LEAVE THE

SPIERS

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NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 ERDA-07

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OMB-01 SAM-01 OES-05 STR-04 TRSE-00 FRB-01 FEA-01

USIE-00 INRE-00 NSCE-00 SSO-00 /093 W
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O R 251838Z FEB 75
FM AMEMBASSY LONDON
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USMISSION EC BRUSSELS
USMISSION OECD PARIS

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PASS TREASURY

COMPANIES AN ADEQUATE RATE OF RETURN. I AM OF COURSE
FULLY SEIZED OF THE FACT THAT A CHANGE IN THE PRICE OF OIL
RELATIVE TO PRICE LEVELS GENERALLY COULD HAVE A PROFOUND
EFFECT ON PROFITABILITY. I THEREFORE MADE IT CLEAR ON
SECOND READING, AND I TAKE THIS OPPORTUNITY TO REAFFIRM,
THAT THE GOVERNMENT WILL STAND READY TO REVIEW AND ADJUST
THE INCIDENCE OF PRT IN THE EVENT OF A SUSTAINED AND SIG-
NIFICANT CHANGE IN THE PRICE OF OIL IN REAL TERMS.
BUT I HAVE GIVEN CAREFUL THOUGHT TO THE REPRESENTATIONS
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MADE THAT THERE SHOULD BE SOME MORE AUTOMATIC PROTECTION AGAINST A FALL IN THE OIL PRICE AND A CONSEQUENTIAL REDUCTION IN REVENUES. WE THEREFORE PROPOSE THAT THERE SHOULD BE A SAFEGUARD PROVISION THAT TO THE EXTENT THAT IN ANY YEAR THE PRT CHARGE REDUCES THE RETURN ON A FIELD BEFORE CORPORATION TAX TO LESS THAN 30 PERCENT OF CAPITAL EXPENDITURE MEASURED ON THE BASIS OF HISTORIC COST, THAT CHARGE WILL BE CANCELLED. THERE WILL BE A TAPERING PROVISION ABOVE 30 PERCENT.

THESE NON-DISCRETIONARY PROVISIONS WILL BE INTRODUCED AT THE REPORT STAGE OF THE OIL TAXATION BILL.

I COME NOW TO THE RATE OF TAX. I HAD ORIGINALLY ENVISAGED THAT THE RATE OF PRT WOULD BE ENACTED IN THE SPRING FINANCE BILL. HOWEVER, NOW THAT THE TIMETABLE ALLOWS THIS I PROPOSE THAT IT BE INCORPORATED IN THE OIL TAXATION BILL.

IN CONSIDERING THE RATE WE HAVE IN MIND TWO OBJECTIVES. FIRST, WE MUST ENSURE THAT THE GOVERNMENT, ON BEHALF OF THE BRITISH PEOPLE, SECURES SUFFICIENT OVERALL REVENUE AND SUFFICIENT BENEFIT TO THE BALANCE OF PAYMENTS FROM THIS RAW MATERIAL ASSET. SECONDLY, WE MUST ENSURE FOR THE COMPANIES AN ADEQUATE RETURN ON CAPITAL AND AN ADEQUATE INCENTIVE FOR FURTHER DEVELOPMENT AND EXPLORATION SO AS TO ENSURE THAT THE OIL CONTINUES TO FLOW. IN THE LIGHT OF THESE CONSIDERATIONS WE PROPOSE A RATE OF PRT OF 45 PERCENT."

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Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
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Status: NATIVE
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TAGS: ENRG, UK
To: STATE
Type: TE
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